

PD-AEH-200
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FY 1985 CDSS PRIORITIES PAPER

THE GAMBIA

OAR/Banjul
March 1, 1983

Received 3/1/83
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FY 85 CDSS PRIORITIES PAPERI. CHANGES IN THE GAMBIA'S ECONOMIC PROSPECTS

The Gambia's economic status has deteriorated further since the preparation of the FY 84 CDSS. Even after an IMF analysis conducted in October 1982, there was cautious optimism for the country's economic prospects during 1982/83. This was based on: (i) the success of the standby agreement with the IMF; (ii) the anticipation of a good groundnut harvest following good rainfall; and (iii) the World Bank's expectation of a significant increase in world market prices for groundnuts. Since October, however, a drastic drop in the world market price for groundnuts, which constitute 75 to 85 percent of The Gambia's exports, has placed both the economy and food security in further jeopardy.

Contrary to expectations, the international price of groundnuts fell from Dols 468/ton (FOB in-shell basis) in 1981/82 to Dols 282/ton in 1982/83, a drop of 40 percent. Thus, although Gambian groundnut exports are expected to reach 100,000 tons, slightly higher than the IMF estimate and 18,000 tons higher than 1981/82, export earnings from groundnuts will be 26 percent less than in 1981/82. In fact, for each ton exported the Gambia Produce Marketing Board (GPMB) will receive Dols 15 less than it pays the farmer. When transport and processing costs, roughly Dols 62/ton, are taken into account, it is estimated that GPMB will lose Dols 9.2 million on its groundnut operation this year. To make up this loss, the farm-gate price next year would have to be reduced by approximately Dols 68 - Dols 76/ton to return to break even in the 1983/84 purchasing season and to ease inflation.

The impact of such a price reduction next year on production and marketing through GPMB is difficult to ascertain with any sort of precision. Assuming a production supply elasticity of .25, which is not unreasonable, and reasonably good rains, production would be expected to decline by 10 percent. However, if the price of groundnuts in Senegal is not reduced in line with reduction in The Gambia, marketing through the GPMB can be expected to decline at a greater rate than production. In any event, the negative effect on farm income will be large.

Some of the expected economic consequences of recent events need to be noted. The large indebtedness incurred by the GPMB will, apparently, have to be financed by short-term loans and overdrafts. This will increase liquidity with resultant adverse effects on the rate of inflation. Another consequence is that the recent decrease in the value of the Dalasi will make it more difficult to import goods and services. This situation may have a favorable effect on the balance of payments but accompanying negative effects would be a decrease in government revenues and additional inflationary pressure on consumer and capital goods. The former would result from declining receipts from import duties. The latter would result from the absorption of the money generated through increased liquidity by a declining supply of goods. Yet another consequence is that declining foreign exchange receipts will reduce development plan investments.

Finally, and most importantly, a major consequence of anticipated future declines in the farm-gate price will be a decline in food security for the farm population. Under the current agriculture production and consumption system most farmers rely on income earned from groundnut production to procure rice for consumption. A decline in earnings from groundnuts

will reduce their ability to purchase rice, the major staple grain in the diet. This will be particularly harmful during the "hungry season" when farm stores of foods are exhausted.

To some extent recent declines in international rice prices will have a favorable effect on the balance of payments and GPMB revenues. The price of rice purchased abroad by GPMB has declined sharply over the past month from Dols 317/ton CIF Banjul to Dols 195/ton. This decline should reduce the foreign exchange cost of rice by Dols 1,800,000. This reduction is a little less than 1 percent of the 1982/83 import bill for all goods and services.

II. REVALIDATION OF MISSION STRATEGY

The consequences of the drastic downturn in the price of groundnuts have again dramatically underscored the danger of relying on one crop. The Mission's strategy of helping the country move towards the diversification of its agricultural production has been highlighted by these events. Diversification efforts will include: (i) expanded production of alternative food crops such as corn, sorghum, and millet; (ii) studies and pilot efforts to fully develop already familiar but unexploited alternative cash crops; and (iii) an integrated approach to farming that meshes livestock, crops, and woodlands in ways that mutually reinforce each other and make each more productive than it has been heretofore.

The first steps towards implementing the strategy have been taken. These include the completion of a PID for the initiation of a PL-480 Section 206 program in FY 1984 and the organization of a procedure that will lead to the enhancement of the diversification elements of the Mixed Farming and Resource Management Project.

With respect to the Section 206 Program, the GOTG has been extraordinarily interested and cooperative in the development of this effort. The objective of the endeavor is to help The Gambia manage its food gap and burgeoning balance of payments deficit during a critical period of structural adjustment to the drastic decline in groundnut revenues. A closely related objective is to provide the financial resources necessary to carry through an optimum combination of key policy reforms, institutional changes (including privatization), and project activities to attack the root causes of the food problem and food insecurity in villages during the hungry season. Further, the program is clearly seen by important elements within the government as an instrument for the furtherance of significant agricultural policy reforms which were partially initiated under the IMF standby agreement. These are discussed in III B below.

With respect to diversification under the Mixed Farming Project, efforts are proceeding for a major evaluation of the project in March/April, from which practical recommendations for modifying the project to enhance the focus of its resources on diversification will emerge. This procedure stems from a decision by the Mission not to initiate a separate agriculture diversification project because of the strain such a project would put on the GOTG in terms of counterparts, monetary contributions, etc.

III. FY 1984 CDSS ISSUES

A. Diversification Intentions

The intent of the Mission's agriculture diversification effort is to focus on the development of indigenous crops and livestock, not to introduce exotic plants and animals that may have fared well elsewhere. Our surveys

indicated there are crops in existence that are not being properly exploited because The Gambia's pertinent institutions are focussed essentially on two crops: Groundnuts and rice. For example, Gambian farmers are familiar with cassava and regard it as a valuable crop. It does not grow well in this country because of problems with mosaic and the mealy bug. We know that elsewhere cassava varieties have been developed that are resistant to mosaic and that successful research has been conducted regarding the introduction of a natural predator of the mealy bug. Maize has done well in initial production efforts in The Gambia and has been well received in local markets. Moreover, there are crops, such as the wing bean, that grow wild in The Gambia, that have been successfully exploited elsewhere.

To turn these crops and others into real substitutes for groundnuts and rice will require a substantial effort at broadening the current perspective and scope of Gambian institutions, including the family. Coupled with this will be practical research requirements such as finding economical ways of processing maize for human consumption.

With respect to the development of export crops, our intention is to look first towards ECOWAS markets. There appears, for example, to be a potentially good market for maize in Nigeria.

B. GOTG Policy Reforms and Balance of Payments/Problems

The primary and immediate cause of The Gambia's critical balance of payments and budgetary problems is the drastically declining terms of trade for groundnuts. Groundnuts constitute 75-85 percent of The Gambia's exports. Bad weather in recent years and inefficiencies in the production and marketing of groundnuts and other export items have also contributed to these problems.

The GOTG is dealing with declining terms of trade and consequent increases in food insecurity in the villages in the short run primarily by manipulating rice-groundnut price parity to maintain farm purchasing power. This is not a viable solution in the long run. In fact, the GOTG and the GPMB have already exhausted the internal resources available to continue this approach. The absence of special measures will result in a sudden, drastic reduction in farm income which has already declined in recent years.

In association with its IMF standby agreements, GOTG has undertaken a number of policy measures to maintain and strengthen the government's financial position. In agriculture, these have included reduction of production and consumption subsidies. Further plans include the elimination of fertilizer and irrigated rice subsidies and elimination of rice consumption subsidies within the next two years. The government has announced its intention to withdraw from the input supply business in favor of cooperatives. It is using STABEX receipts to maintain the financial position of the GPMB and the Gambian Credit Union (GCU). Finally, it is in the process of reducing and then, possibly, eliminating subsistence credits. Broader economic policy measures include reduction of government deficits, reduction in external debt arrearage, limits on non-concessional borrowing, and other anti-inflation measures.

The problem now is to continue these and other reforms, such as rationalization of tax policy and expanding the role of private enterprise in marketing, while (i) maintaining real farm incomes to the extent possible and (ii) diversifying agriculture output as well as making it more productive. This is the strategic thrust of the AID program in The Gambia.

C. Strategic Performance Benchmarks

The OAR cannot yet provide quantitative estimates against which program progress can be measured over the 1984-1988 period. These will be developed over the course of final Section 206 and revised Mixed Farming Design. We can, however, provide qualitatively the four types of benchmarks we will be using. These are:

1. Farm income and food availability.
2. The extent to which the GOTG becomes aware of the economic trade-offs between rice/groundnuts and other kinds of production.
3. The extent to which the GOTG is able to simplify its complex of taxes, subsidies, and interventions so that, for example, it is not in effect using an export tax on groundnuts to subsidize groundnut production - or that it is not engaged in marketing where private firms could do it better. -
4. The extent to which GOTG institutional and program development is directed toward: (i) more economic food crops; (ii) commercialization of crops other than groundnuts, cotton, and rice; and (iii) integration of crops, livestock, and woodlands.

D. Transition from Rainfed to Irrigated Agriculture

Technically there appears to be room for some continued movement into irrigated agriculture. This will be very expensive and complex. The potential should be realized by projects now under various stages of development.

First, the extraordinarily dry seasons of the last ten years appear to represent a sharpening of the declining rainfall pattern that has been

underway for at least the past ninety years. This has meant declining volumes of river and groundwater. Even now, some of The Gambia's most productive privately managed groundwater irrigation schemes are being taken out of production for lack of groundwater. This is after the comparatively good 1982/83 season. It will take several good seasons to restore groundwater levels.

Second, The Department of Water Resources estimates that the Jahally-Pachar irrigation scheme now under construction represents the maximum that can be taken from the normal flow of the Gambia River. This will add 1,500 ha to the 2,500 ha now under irrigation. Impoundment of waters in the proposed Bridge-Barrage project will add a possible 25,000 ha to irrigated agriculture. The Department and others estimate this represents the maximum amount of water that can be taken from the Gambia River for Gambian agriculture under impoundment schemes. It will take many years and tens of millions of dollars to develop this scheme.

Consequently, the FY 84 CDSS does not indicate that the Mission means to achieve its diversification objective by encouraging a shift from rainfed to irrigated agriculture. On the contrary, we have expressed reservations to the GOTG about its emphasis on irrigated rice in connection with the Bridge-Barrage scheme and believe other irrigated crops would be better. In fact, this reservation is at the very heart of our diversification strategy. As noted in Section III A, we intend primarily to seek out means of developing indigenous i.e., rainfed crops not exotic varieties. However, we will also consider how best to apply irrigated agriculture to diversification. Illustratively, we may very well assist and encourage the GOTG to develop other crops besides rice in the Bridge-Barrage project. We are also considering

the possibility of initiating or encouraging other donors to initiate a nation-wide groundwater survey.

E. Management Strategy

The OAR has just completed the first stage of a two-stage assessment of its management structure. Recommendations to date center on: (i) placing greater emphasis on macro-economic and policy questions in the program position and in one of the two agricultural positions; (ii) divesting the program position of project and administrative management responsibilities; (iii) narrowing the focus of the general development position; (iv) orchestration of an office-wide effort to improve skills in implementation, program documentation, and program operations; and (v) common support arrangements with contractors. The assessment did not recommend further reduction of projects beyond CDSS projections and the OAR is confident it can manage at least ten projects with current authorized staff levels. This will require, however, AID/W cooperation with the OAR in staff recruitment and training.

F. GOTG Absorptive Capacity

The Mission is very mindful of this problem. It is because of this consideration that the decision was made not to proceed with a new agriculture diversification project (see Section II above). Moreover, the up-coming evaluation of the Mixed Farming project will examine possible changes in the GOTG's participation in the project in light of the absorption problem. In addition, the Mission is cooperating with other donors in a UNDP-led effort to increase donor coordination, which, if successful, should help ease the country's absorption difficulties. Finally, both the proposed Section 206 and the current financial management projects are directed towards enhancement of absorptive capacity.

G. Women in Development

The Mission has recently completed a three-month study in this area, focussing in particular on the relationship of women in agricultural production. Its results are being analyzed by Mission staff. From this we expect to develop ideas on how our current projects might be practically modified to direct more resources towards women. We also anticipate using information from the report in the redesign of the mixed farming project.

H. Private Enterprise

The Mission conducted a study of the private enterprise climate in The Gambia during FY 1984 CDSS. Our consultant concluded that current GOTG policies were conducive to private investment. In fact, there is a component within the Second Five-Year Plan which is intended to enhance private enterprise. We have learned from experience, however, that there are behind-the-scene activities which inhibit the introduction of new business ventures or the expansion of on-going concerns. This type of constraint is difficult to address. But we have had limited success in linking a few Gambian businessmen with U.S. firms on an introductory basis.

The Mission is currently conducting a study of credit and credit institutions in the country. The results of this study will enable us to decide if we can develop mechanism to assist the private sector. It should be understood, though, that small businesses in The Gambia operate at a very rudimentary level and that past assistance efforts in the area by other donors (UNDP in particular) have been notably unsuccessful.

Finally, the proposed Section 206 Program is addressing the question of a larger private enterprise role in marketing.

I. Senegambia Confederation

The two countries are presently developing protocols on the amalgamation of their fiscal and economic policies and procedures. Owing to the delicacy of these negotiations, it is difficult to obtain much information on their status. Obviously the outcome of these arrangements could have a profound affect on The Gambia's economy. For example, the bulk of The Gambia's recurrent budget is covered by taxes on imports. If the current differences between Senegal's and The Gambia's import tariffs are eliminated, it is logical that The Gambia's imports would drop significantly as the re-export market would largely dry up. If some means of counterbalancing the revenue loss cannot be arranged, economic difficulties would result. Moreover, even the perception of inequitability in the negotiations could cause a political backlash against the confederation. Importantly, the GOTG's Minister of Finance, also recently appointed the Confederation's Finance Minister, has asked the Mission to provide him with a financial adviser to assist him in the negotiations and in the preparation of necessary documents. We are providing an appropriate consultant on a priority basis.

IV. THE FOUR PRIORITY AREAS

A. Policy Framework

As indicated above, the GOTG is open to considering policy reforms and in fact has begun some changes, particularly with respect to subsidization, in conjunction with the IMF standby agreement. The Mission has had some frank policy discussions with the government in connection with the Agriculture Diversification Strategy and the Section 206 Program. The acceptance of the diversification strategy by the GOTG is in itself a policy reform as it begins

to turn the government's institutional attention away from groundnuts and rice. We also anticipate a further opportunity to engage the government in policy discussions through the provision of a financial adviser to the Minister of Finance (see Section III I above). In short, we are actively involved in a policy dialogue with the government. In fact, the frequency of policy discussion has increased remarkably over the past few months. Under the circumstances it is imperative that the Mission be in a strong position to provide the analyses and sustained articulation required to take advantage of the GOTG's willingness to listen and act. This may require changes in our current staff mix, a matter which we will consider shortly (see Section III E above).

B. Private Sector

As indicated above, there is a willingness on the government's part to help develop the private sector and movements to turn over some government operations (rice exports, for example) to private hands have begun. Last year the GOTG turned over garbage collection to a private, indigenous firm. A World Bank representative told us that this was probably the only case of its kind in Africa.

This example notwithstanding, it is evident that development of the private sector is going to be slow and painful. Many of the small businesses in the country are run at the most basic level. Many owners are unfamiliar with basic accounting and cannot tell at anyone time whether they are making or losing money. Moreover, most of the successful businesses are owned by Lebanese. While many of these Lebanese are native-born, there are indications that some circles within the government would prefer to direct development efforts away from them. Other matter cloud the private sector development picture.

The biggest is the Senegambia negotiations. Many businessmen, particularly those involved in the re-export trade, are understandably reluctant to expand their activities pending the outcome of these negotiations. Another important factor is the severe shortage of foreign exchange and the concomitant problem of importing necessary goods and equipment. As noted in Section III H above, the Mission has begun to analyse this sector to prepare for possible assistance. We expect that other ideas will emerge from the Mixed Farming Project evaluation in terms of linking agro-businesses with future plans. For the reasons cited above and because of lack of expertise within the Mission staff in this area, we are moving cautiously.

Banjul cable 159 presented Mission (Embassy and OAR) views and steps regarding policy dialogue and private enterprise development. That message should be read in conjunction with Sections IV A and IV B of this presentation.

C. Technology Transfer and Research

The Mission views its diversification strategy as part and parcel of this policy directive. We anticipate that there will be a direct link between the technology and research networks being developed under this policy and our plans in particular for enhancing the Mixed Farming project, which will constitute the principal vehicle in our diversification efforts. Specific linkages will emerge as we examine over the next few months the form in which the project's enhancement will be accomplished.

D. Institutional Development

As indicated in Section III A above, our analysis of The Gambia's socio-economic structure and our general experience in the country suggests that a large part of the country's current difficulties stems from its institutions being almost wholly absorbed with groundnuts and rice. While other

crops are grown, mainly sorghum and millet, the greatly preferred staple is rice and groundnuts is the only cash crops of significance. Hence, the preoccupation with these two crops by both formal and informal institutions. There are, for example, no other cooperatives in the country other than those concerned with groundnuts. Moreover, the very division of family labor and responsibilities centers essentially around these two crops.

As indicated in Section III A above, much of the effort aimed at achieving agricultural diversification will have to be devoted to initiating institutional changes. This will not only include the refocus of public and private resources but also changes in familial attitudes and behavioral patterns such as decisions on male-female labor division for the growing of different cash or food crops as well as changes in eating patterns.

V. OTHER - FAMILY PLANNING

Neither the above nor the original CDSS discuss plans for Family Planning assistance. Nevertheless, the OAR believes that with a population growth rate of 2.8 percent, there is need for additional effort in this area. The OAR also has indications that the local climate is favorable for consideration of additional assistance to such efforts. OAR plans to review the situation further and present our findings in the FY 85 ABS, including, perhaps, proposals for additional assistance, probably under central or regional auspices.

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